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Frequently Asked Questions About Community Land Trusts

What is a community land trust?

A community land trust (CLT) is a community-based membership organization, governed by a community-based board of directors, whose mission includes permanent stewardship of land for community benefit and perpetual preservation of the affordability of housing on that land. CLTs acquire and hold land and make it possible for lower-income households to buy and own homes on land that is leased from the CLT through long-term (typically 99-year), renewable, inheritable ground leases. In this way, the cost of land in the purchase price of the home is minimized or eliminated, making the home initially more affordable – while assuring long-term stability and security for the CLT homeowner.

Additionally, CLTs place equity limitations into the ground lease agreement that restrict the resale price of these homes, in order to maintain long-term affordability – in an attempt to balance the seemingly competing goals of providing a fair equity return to the initial homeowner while seeking to assure that the home is kept affordable for the next buyer – without requiring the infusion of additional subsidy at the time the property changes hands. In so doing, the benefit of the investment of public and private dollars needed to *create* affordability is *preserved* for generations to come.

How does a typical CLT operate:

A. How does it acquire property? CLTs acquire property in two ways: (1) through purchase – using their own funding or funding they receive from public sources (such as HOME, CDBG, tax-increment financing and the like) and/or private sources (such as grants from foundations or other philanthropic sources) or through donation (by a private individual, a land or housing developer, a municipality or any other landowning entity).

B. How does it sell or lease property? CLTs retain ownership of the land, conveying its use to the owner of a building that is located on that land by means of a long-term ground lease.

In the case of homeownership, the lessee owns her home and all improvements – evidenced by a deed– and an exclusive right to use the land – evidenced by the ground lease. These legal instruments, executed at closing, are recorded in the county land records.

In the case of rental housing, the CLT owns the land and provides a master lease to the owner of the rental housing building(s).

- C. **Who builds the housing?** There is a variety of ways in which homes are brought into the CLT's portfolio. Many CLTs develop and build the housing – creating the affordable dwelling units and acting as the long-term steward of the affordability of this housing. In other cases, the CLT's role is only to act as the long-term steward the affordability of housing developed by another for-profit or non-profit housing development entity.
- D. **How to individuals who want to buy CLT housing obtain financing?** Homes for sale through a community land trust are always more affordable than market rate housing. However, there will always be a need for mortgage financing for CLT homeowners. Consequently, CLTs work with local lenders to secure mortgage financing commitments for their homeowners. Many lenders across the country have made commitments to provide leasehold mortgage financing to CLT homeowners; additionally, Fannie Mae will buy CLT leasehold mortgages.
- E. **What happens if the residents want to sell or move?** When a CLT homeowner wishes to sell her home, the CLT has a preemptive option to purchase – and, often, the CLT exercises this option to purchase and assigns this option to a new income-qualified buyer. In the event that the CLT does not exercise its option to purchase, the CLT homeowner is obliged to sell the home to an income-qualified household. In either case, the resale price is limited by the resale formula stipulated in the ground lease executed at the time the homeowner purchases her home.
- F. **What are the criteria for living in CLT housing? (In other words, who is being targeted?)** Every CLT determines its own priorities for who will be served – the target market who will be the beneficiaries of the CLT's activities. Many CLTs establish broad, clearly defined threshold eligibility criteria – including established income parameters – in accordance with fair housing requirements. These CLTs also, typically, establish secondary selection criteria, allowing the CLT to select from among equally eligible households, based on CLT-specific priorities (such as households currently living and/or working in the local community, etc).
- G. **Where does the CLT obtain its funding?** Like other nonprofit organizations, CLTs must rely on grant funding for their start-up and initial operations costs. Sources for this initial revenue typically include private philanthropy (such as foundations and faith-based organizations) and public sector funding (from federal, state, county and local municipality sources). Once they reach a substantial scale, CLTs have the potential to be self-sufficient, through program-generated revenue sources (including ground lease fees, developer fees, lease re-issuance fees, membership dues and fees for service).
- H. **What policies and procedures help keep the affordable housing in a CLT development affordable?** Housing affordability is established at the time the homes are initially developed – through the use of public and/or private funds or through municipal intervention (such as inclusionary zoning, linkage fees, density bonuses and the like).

CLTs are able to preserve this initial affordability over the long term by controlling the prices at which CLT homes are sold to subsequent limited-income households – governed by a resale formula specified in the ground lease. Every CLT selects and tailors the resale formula to meet its priorities, preferences and local market conditions. All formulas, however, are designed to provide a fair return to the seller (typically allowing the seller to recoup their downpayment and the equity earned through pay down of the principal balance on their first mortgage loan plus a percentage of any increase in value of the home during their tenure as owners) while seeking to limit the resale price to a level affordable to another low-income household – without requiring additional affordability subsidy. A common resale formula used by CLTs is an appraisal-based formula – allowing the CLT homeowner to receive 25% of the increase value of the improvements (or the land and improvements), as determined by market appraisal.

- I. **What types of residential units does a typical CLT help produce?** CLTs most commonly create single-family for-sale housing. These affordable homes can be detached or attached (e.g. duplexes, townhomes, rowhouses and the like). Additionally, many CLT create homeownership opportunities through development of cooperative housing and/or condominium units. Other CLTs create a stock of rental housing and assure its affordability through use of a ground lease to the owner of the rental housing complex.

- J. **Do CLTs or the people who live in CLT housing pay property taxes?** CLT homeowners are typically responsible for the payment of all real estate taxes – on the home they own and the land they lease. CLT homeownership typically qualifies for homestead tax classification, as CLT homeowners have “beneficial title” to their property. Many CLTs, in an effort to enhance and preserve the affordability of their housing stock will negotiate special tax assessment treatment from local taxing jurisdictions.

Why is a CLT needed, or desirable? Many communities – for a variety of reasons that contribute to the desirability of their markets – are experiencing high housing costs, dwindling availability of buildable sites and/or rapid annual increases in land costs and housing prices. The gaps between what homes cost and what increasing numbers of the local households can afford in these communities is increasing at an alarming rate – affecting local employers and the overall economic vitality of local communities. Given the urgency of the need and the increased demand on public and private resources, there is a critical need to create a stock of housing affordable to local working families that will remain affordable from household to household, for generations to come.

How do CLTs fit into public sector strategies to increase the stock of affordable housing in local communities? Local governments – along along with nonprofit agencies, employers and the business community and the efforts of the broader communities in which they operate – are increasingly committed to creating effective, workable, long-term solutions to this urgent and growing crisis of housing affordability. Local governments are seeking cost-effective solutions that will preserve and leverage their efforts to bridge the affordability gaps for their residents (including municipal initiatives such as donation of tax-

forfeited properties, allocation of public funds available through various municipal programs or implementation of municipal requirements and/or incentives to spur the creation of additional affordable housing units, and the like). As a result, many city and county governments are turning to community land trusts as the means to assure that the benefit of this public investment is preserved over the long-term.

Do CLTs produce benefits for people other than those who live in CLT housing? If so, what are those benefits? There is little doubt – and substantial evidence – that increasing homeownership within local communities enhances the quality of life within those communities. In fact, the crisis of housing affordability is threatening the quality and vitality of many communities, as schoolteachers and bank tellers and municipal employers and small business owners and police officers and firefighters – and many other “normal” households – are unable to afford to live in the communities in which they work. Using limited and precious public and private subsidies – and leveraging the benefit of this investment over the long term through a community land trust – makes sense not only for the immediate beneficiaries but also for the broader communities in which they live. This is effective and forward-thinking public policy.

What groups of people aren't typically aided by CLTs? Community land trusts typically restrict their affordable housing stock to households in need of this affordability. Many CLTs target households with incomes below 80 percent of area median income, due not only to the urgency of the need for lower-income households but also to the requirements of federal affordable housing programs such as HOME funds. In communities where housing is already very expensive (and escalating rapidly) and where additional resources are available to create housing affordability, CLTs will often target a larger range of households, including households with incomes up to 100 percent of median income and below.

Without doubt, everyone in the community benefits - even if they aren't direct beneficiaries – when local opportunities for homeownership are expanded and preserved for households of limited means over the long term.

Are there particular challenges faced by CLTs? The challenges to be addressed in order to create the affordable housing in the first place exist in many communities. The challenges – while not specific to CLTs – typically fall into two broad categories:

1. In some neighborhoods, the need is to redevelop challenged, sometimes deteriorating neighborhoods – by lining up the financial resources, political will and community capacity needed – in sufficient quantity – to revitalize these neighborhoods. The particular challenge is to do this reinvestment, redevelopment and revitalization without leading to the inevitable displacement of residents on the lower end of the economic spectrum. Community land trusts are being used in these neighborhoods as a means to accommodate development without displacement, placing ownership of the land in the control of the local community – allowing the community, rather than the marketplace, to determine what happens in these revitalized neighborhoods.
2. In other communities, housing affordability is the critical issue. Land costs are high – and escalating. Market demand for housing resources is shrinking local housing supplies and driving costs ever higher. Local zoning and land-use regulations – and,

typically, public opinion – make it difficult to reduce housing production costs through increased density or alternative land uses. Additionally, public (and private) resources to bridge the affordability gap – at a time when gaps are getting bigger and demand from broader segments of the population in local communities – are limited.

All of this is happening as the federal government continues to abdicate its responsibility for dealing with the crisis of housing affordability in any meaningful or substantive way, leaving it to local city and county governments to craft effective and creative solutions.

Do most CLT housing initiatives require higher development densities than those typically allowed in residential housing? Allowing increased density – to assure more sound land use practices and to reduce housing production costs – is a matter of public policy. Allowing (or not allowing) increased density has nothing whatsoever to do with the community land trust *per se*. However, many CLTs act as the long-term steward of the housing affordability that is created through increased density and other municipal incentives and requirements.

What, if anything, does the CLT or local government do in order to mitigate the impacts of higher densities (if they are granted)? Again, this is not a CLT-specific issue. These matters of public policy need to be worked out at the public sector level – and the CLT assures that the benefit of all of the hard work and substantial investment of resources needed to establish these public policy priorities are preserved forever.

Would CLT housing units pay impact fees? Once again, this is a matter of local public policy. Unless a waiver or variance is granted, the CLT, presumably, would need to pay impact fees on housing developed by or for the CLT. However, reducing (or removing) these impact fees is one way that local municipalities have been able to create additional affordability – and many CLTs have been successful in negotiating these arrangements in exchange for their commitment and ability to preserve the benefit of such a public policy initiative – and the housing affordability it creates – for a really long time. The prospect of permanent affordability increases the appeal of granting a reduction (or removal) of these fees for CLT homes.

What evidence supports the assertion that CLTs help provide affordable housing? It bears noting that there is nothing about the CLT that *creates* the initial affordability of local housing – it simply and importantly *preserves* that affordability (whether the housing is created by the CLT or by some other entity) forever. Nonetheless, my explanations above – as well as the track record of CLTs across the country attests to the effectiveness of the CLT as perhaps the most effective tool available to communities intent on creating and sustaining a stock of housing affordable for families and individuals otherwise priced out of the market.

As community land trusts are still a relatively unfamiliar community development strategy and affordable housing tool, there is much misinformation and lack of knowledge and understanding about CLTs “out there”. What is your response to the following assertions sometimes heard about CLTs?

“The CLT will remove land from the market and ‘just sit on it.’ ” As reported above, CLTs acquire land specifically for the primary purpose of affordable housing development and for preserving that affordability for resident households for generations to come. CLTs are not land conservation organizations, removing land from the development process. Rather, CLTs are community-based initiatives to make – and keep – land available for critically important community needs, most especially for developing and preserving a stock of permanently affordable housing for the local workforce.

“The CLT will drive up land prices by removing land from the market.” Land values and prices increase as a result of increased demand and shrinking supply – and the development activities and improvements that occur on that land. CLTs acquire land for the development of affordable housing and place the ownership of that land in the hands of a community-based organization, allowing the community – rather than the marketplace – to control the future use and disposition of that land and any buildings located thereon for the long term.

“CLTs are ‘housing projects.’ ” I know of no example of any CLT in the country that has created substandard or shoddy housing. CLTs pride themselves on building homes that are equal to or better than those in the surrounding market, appropriate to the target market. Unlike “the projects” which are housing units owned and managed by the public sector, CLT homeowners are working families and *real* homeowners, just like their neighbors. Given that their return on their housing investment (like their fee simple neighbors) is based on the value of their home at the time of resale, they have the same motivation as other homeowners to care for and maintain their homes. Furthermore, the CLT ground lease stipulates that the CLT homeowner must maintain their home and obey all laws, codes and ordinances – as a condition of their compliance with the ground lease. This means that the CLT can force remedies, if needed, and that repeated or egregious violation of the terms of the ground lease constitutes a default on the ground lease, allowing the CLT, as warranted, to remove the noncompliant lessee and sell the home to another qualified household. As a result, CLT homes are characteristically the nicest homes on the block.

“CLTs take away the opportunity for limited-income homeowners to build wealth.” Community land trusts are *providing* opportunities to households that are unable to afford to buy a home in the community in which they wish to live. *But for* the community land trust, these families and individuals would be living in overpriced, overcrowded or substandard housing – or forced to live in another, more remote community where the housing is less expensive; households in these situations are the ones being denied opportunity. Community land trusts provide limited-income households with the opportunity to have a safe, decent and affordable place to call home – and, in return, ask these households to leave this affordability in the home, when they move in, so that this home can be affordable to the next household in the same situation.

At the same time, CLT homeowners are able to build equity – creating new opportunities for choice and mobility. In 2003, Burlington Community Land Trust (Burlington, Vermont) published a study of nearly 100 BCLT homeowners who had sold their homes, which they had originally purchased through the CLT. This study found, among other things, that most homeowners walked away with more assets than they had possessed when they initially purchased a BCLT home and that nearly 75 percent of these former BCLT homeowners bought a market-rate home within six months of the sale or re-selling their limited-equity BCLT home.